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COMMISSION**

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## *Memorandum*

TO: Administration Committee

DATE: March 2, 2011

FR: Executive Director

W. I. 1611

RE: Resolution No. 3991 - Bay Area Transit Oriented Affordable Housing Fund:  
Draft Principles for Funding Agreement with the Low Income Investment Fund (LIIF)

### **Background**

The Transportation for Livable Communities (TLC) program currently directs over \$25 million annually to support development near the region's existing and planned transit stations. The 2009 analysis in *Bay Area Housing and Transportation Affordability: A Closer Look* concluded that the need to locate affordable housing near transit remains acute in the Bay Area, the most expensive housing market in the country.

In order to help address these challenges, MTC and ABAG staff have participated in discussions with members of the Great Communities Collaborative (GCC) to establish a land acquisition and land banking financing facility or fund to maximize the production of affordable housing near transit stations, consistent with the new TLC guidelines. The GCC is a collaborative of 24 member organizations, including Reconnecting America, a national transit advocacy non-profit, four non-profit entities focused on sustainability and equity in housing and transportation, and three community foundations (the San Francisco Foundation, Silicon Valley Community Foundation and East Bay Community Foundation).

### **Discussion**

In February 2010, the Commission approved Resolution No. 3940 which outlined MTC's conditional commitment to join with the GCC to establish a fund to advance the development of affordable housing near the region's existing and planned transit stations. The Commission set aside \$10 million in Surface Transportation Program (STP) and Congestion Mitigation and Air Quality Improvement (CMAQ) Program funds from the regional TLC grant program until August 31, 2011 to allow for a consortium of funders to create the Bay Area Transit Oriented Affordable Housing Fund (the Fund) subject to four conditions, all of which have been met as noted below:

- 1. MTC is able to find a source of funds to exchange for the STP/CMAQ funds, since the proposed TOD fund is not an eligible expense for federal highway funds.**

Agreements are now in place to exchange STP/CMAQ funds from the TLC program with non-federal funds in order to contribute \$10 million to the Fund. MTC would distribute the funds in two \$5 million installments to coincide with the schedule of payments into the exchange fund. The first payment of \$5 million would be deposited in March 2011. The second installment is anticipated to occur in July 2011.

**2. Foundation and other sources of funding would be matched by MTC funds on a minimum 3 to 1 basis by August 31, 2011 to reach a minimum fund total of \$40 million.**

The Fund has secured commitments on required matching basis in excess of the \$40 million minimum (\$10 million from MTC and \$30 million from various local and national foundations and banks). There is a strong possibility of reaching \$50 million prior to fund closing based on the interest of additional funding partners. A listing of commitments received to date will be provided at your meeting.

**3. Consistent with Commission policy, the funds would be spent only in Priority Development Areas (both planned and potential) on projects that have the greatest potential to deliver affordable housing units.**

The Fund's Business Plan and underwriting criteria require that funding be limited to Priority Development Areas consistent with Commission policy for the TLC program.

**4. MTC would be represented on the Fund manager selection team and on the Fund's advisory committee.**

MTC staff actively participated in the selection of the Fund manager: Low Income Investment Fund (LIIF) in summer 2010. LIIF is a nonprofit community development financial institution (CDFI) dedicated to serving low income people and communities throughout the country with a twenty-five year track record of supporting low income housing development focused in Northern California, Southern California, and New York City. To date LIIF has funded \$500 million in loans creating over 50,000 affordable housing units. Since its selection as the Fund Manager, LIIF has actively cultivated the fund partners necessary to secure the matching \$30 million consistent with MTC's requirements.

MTC will participate in the Fund's ongoing advisory committee throughout the Fund's existence consistent with the Business Plan.

MTC staff is satisfied that each of the four conditions has been met or exceeded as required and is preparing the terms of the funding agreement in order to complete the transaction immediately following the Commission meeting on March 23. The draft principles of agreement are attached for your consideration. Staff will finalize these terms over the next two weeks and will seek the Commission's authorization to execute the funding agreement with LIIF, the Fund manager for the Bay Area Transit Oriented Affordable Housing Fund.

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Steve Heminger

## ATTACHMENT A

### Draft Principles of Agreement

#### Bay Area Transit Oriented Affordable Housing Fund

1. MTC will enter into an agreement with the Low Income Investment Fund (LIIF) to contribute \$10 million to the Bay Area Transit Oriented Affordable Housing Fund (the Fund) via LIIF.
2. The Fund will begin in 2011 and will operate for at least ten years from the date of inception.
3. MTC will make its first contribution of \$5 million after the funding agreement is signed, subject to Commission approval of this item on March 23, 2011. MTC's second and final \$5 million contribution to the Fund is dependent upon the availability of anticipated exchange funds that are eligible for use in the Fund. This is anticipated to occur in July 2011.
4. The Fund will secure matching funds of at least \$30 million for the \$10 million MTC contribution, bringing the total loan fund to at least \$40 million once MTC's two payments are made to LIIF per principle 1 above.
5. The Fund will be managed by LIIF, a not-for profit entity, on behalf of all funding partners.
6. All loans from the Fund will be made to projects in Priority Development Areas.
7. Prior to closing, the Fund will adopt a business plan that establishes the Fund's priorities and serves as a guide for the Fund's operations, financial structure, underwriting criteria, and evaluation.
8. MTC will be represented on the Fund Advisory Committee to monitor the Fund's progress against the business plan. MTC will not participate in the selection of specific projects.
9. The Fund manager (LIIF) will use standard accounting controls and MTC will have the right to review all financial reports of the Fund.
10. No representative from MTC will participate in any paid capacity.
11. MTC is in the subordinate position for repayment during the life of the Fund and at the close of the Fund. As such, after all the Fund's senior lenders are repaid and all unpaid Fund expenses are paid at the close of the Fund, any balance remaining in the Fund will be returned to MTC unless the Fund is extended beyond the initial 10 year period, or MTC agrees to reinvest in a new fund, facility or program that promotes transit oriented development.